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NPN Celebrates 80 Years Of Service
Why Views Differ On Unattended Fueling
How West Coast Market Continues Changing

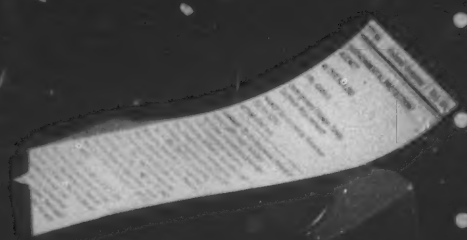
NPN

National Petroleum News

Special Report:

A Closer Look At EPA's Final UST Regs

- What You Must Know About Technical Regs
- Why Financial Responsibility Is Critical
- What's Available In Pollution Insurance
- Leak Detection Guide
- Who To Call If Your Tank Leaks
- State Cleanup Funds



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Editor's Viewpoint

This month's special report on the Environmental Protection Agency's final underground storage tank regulations underlines their complexity and makes obvious the problems and complications they will undoubtedly cause many marketers.

Few people in the industry doubt that the EPA did its best to minimize the impact of these regs on small and medium size businesses. Indications are, however, that the impact will nonetheless be severe. Many marketers apparently had their plans mapped out and were only waiting for the final regs to be released to actually put them into effect. In many cases, the plans were simple: locate and eliminate marginal, low volume stations where it would be economically unfeasible to spend the money necessary to meet the EPA's technical standards or insurance requirements.

How serious will this shakeout be? Hard to tell at this point. But the Petroleum Marketers Assn. of America conducted an impact survey late last year and preliminary results paint a pretty bleak picture. Initial figures from marketers in just seven states scattered throughout the country show they have closed or plan to close about 1,800 stations because of the storage tank and insurance regulations. In Colorado, New Mexico and Wyoming, marketers expect to shut more than 550 stations. Two states in the Midwest will probably close nearly 500. In one Southern state alone, Alabama, projections are that more than 700 outlets will be closed. Particularly hard hit will be low-volume stations in small population areas. About half of the stations closed or expected to close in Alabama, for instance, are in communities of less than 10,000 people. PMAA will release the final survey results shortly and we'll report them to you in detail.

And this may only be half of the story. Marketers are facing other regulations and current or pending legislation which will cost them more time and money, forcing them to look even more carefully at each of their locations and possibly selling or closing all but the most profitable. Stage II vapor recovery, for instance, remains a major problem for marketers in some areas of the country. And looming on the horizon is legislation such as an increased minimum wage, federally-mandated health benefits, family and medical leave. Any of these complications in themselves might be tolerable. But taken together, in such a short time frame, they are becoming an increasingly heavy burden that a growing numbers of marketers may be unwilling to accept. How it all shakes out can't be predicted, but there is little doubt that within the next few years the playing field and the players in this market will be considerably different.

—Frank M. Victoria

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Now that the EPA has issued its final underground tank regs and financial responsibility rules, marketers are scrambling to learn what they have to do—and when. NPN's special report will answer many of your questions. **Page 33**

Can marketers who face increasing competition from the big urban retail outlets being built by the majors find a profitable niche with low investment, fast service unattended cardlocks? Here's one marketer who believes they can. **Page 74**

This month, NPN celebrates its 80th year of continuous publishing and reporting on the oil marketing industry, sharing a history rich in tradition, turmoil and ongoing opportunity. **Page 78**

• TRENDS

RJR Fallout: Could "Big Oil" Be A Target?

One thing that the RJR Nabisco deal proved again is that money and greed have no limitations, no inhibitions, no sensitivities. Based on what happened in the feverish bidding for this conglomerate, it might be presumed that even sex—which vies with hunger as the toughest emotional issues man copes with—would have to take a backseat just to stay in the scene.

The RJR Nabisco deal sent a flock of signals to the marketplaces and financial caverns—some of them, the wrong kind. As one result, the first tier oil companies, heretofore presumed safe and relatively untouchable because of their physical and financial dimensions, no longer have such built-in security.

There is a good chance now that they could very well become the petroleum industry's takeover targets of 1989. Bigness is no longer a valid defense on Wall Street. The RJR Nabisco affair has put acquisitions and mergers in a new perspective—far different than the uneasy one that has existed in recent years.

No oil money was involved in the RJR Nabisco fracas but the blue chips that were tossed around in the financial district by the others competing for this food and tobacco empire were absolutely staggering—$24-billion-$26-billion in the last rounds.

That's twice as much as Chevron Corp. paid for Gulf Oil Corp. in 1984. And that was considered so stupendous at the time that few people thought it would be topped. But now, $13-billion is table stakes; $5-billion deals are hardly worth paying attention to.

Could this then foreshadow a time in 1989 when megabuck companies like Mobil, Texaco and Amoco might become sacrificial pawns? It would be real irony in Mobil's case because this was the company that triggered oil's first big acquisition fight in the early '80s with its bomb shell bid for Marathon Oil Co.

The point is that bids of $10-billion-$15-billion and more—which is what it would take to set up a leveraged buyout for a Mobil, Texaco or Amoco—are no longer so fantastic that they would seem to be beyond reach. Such big money thinking would expose anew the second-tier companies like Unocal, Sun, Marathon, Phillips, Conoco, Amerada Hess, Pennzoil and others. It is very obvious now that nothing is sacred anymore. Except money and greed. If $25-billion can be found for a RJR Nabisco, would $30-billion or more be impossible if someone or some group took off like a skyrocket?

One ingredient the oil companies mentioned above have in common is that they own extensive reserves of oil and liquid condensates. With capital funds for exploration and production at a low ebb and still dwindling, companies with hefty proved reserves are extremely attractive to others eager to shore up their own reserve positions. It costs about $7-$10-bbl. to find and develop reserves. Bought in an acquisition, however, they have a value of approximately $5-bbl.

To appreciate the demand for proved reserves, consider what happened to Tenneco, Inc., when it placed its Tenneco Oil Co. division on the market late last summer. Purchasers-to-be lined up in droves to bid on the oil and gas reserves in this country and abroad.

Tenneco got more than $7-billion for its reserves alone. Its refinery, a relatively modern and highly sophisticated unit, got a couple of nibbles and a buyer (Mobil). Its string of 500 service stations found a new home with an entrepreneur, not an oil man. Its little fuel oil company in upstate New York didn't even get a tumble and has been repackaged to improve its marketability.

Watch out for the players too. They're not always oil companies looking to improve themselves.

Remember, a Florida financier bought the Tenneco service stations, a Canadian gold mining company bought Clark Oil & Refining Co. and several years ago, a Dutch oil trader based in Bermuda bought Arco's old East Coast holdings and started a new company called Atlantic Refining.

This could be an interesting year.

—by J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

NOVEMBER	Gasoline (all types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$0.972	$0.904	$0.949	$1.116
Regions				
Northeast	1.008	.926	.963	1.147
North Central	.976	.920	.958	1.139
South	.970	.899	.945	1.097
West	.943	.892	.933	1.094

Source: U.S. Dept. of Labor, Bureau of Labor Statistics

STOCKS (add 000 bbl.)

	12/30/88	1/1/88
Gasoline (total)	229,568	227,375
Gasoline (unleaded)*	149,569	135,136
Jet Kerosine	37,947	43,666
Distillates	126,432	136,547
Residual	45,174	46,289

** Included in gasoline total*
Source: American Petroleum Institute

Marketing Spending Hitting Record-Breaking Levels

A second look at the capital spending programs of the nation's oil companies confirms anew that marketing is not only faring pretty well, its also getting something akin to a golden handshake in the process.

Marketing is now scheduled to get a $5-billion transfusion this year and another $5-billion by the year 1990. For the 10-year span of 1981-1990, the marketing total is reaching almost a mind-boggling $35.5-billion.

Not only is this an all-time high for marketing, it's positively head-swimming compared to the sums allocated less than 10 years ago—$2-billion in 1981.

For example, when the industry as a whole was spending in excess of $47-billion, most of the money was on exploration and production.

Marketing and refining are generally lumped together as the so-called downstream segment, to separate them from the upstream processes of exploration and production and transportation.

Over the past decade, the total amount spent on downstream hasn't changed that much—$8.4-billion in 1981 (and a high year at that) to $7.7-billion in 1990. The big difference is what went on in the downstream allocations.

Refining, for example, got the lion's share during 1981—$6.3-billion versus $2.1-billion for marketing. By 1990, this situation will have most likely been completely reversed, in spades. Marketing will be getting more than $5.1-billion in 1990 and refining will probably receive at least $2.5-billion.

What happened here, of course, was the change in refining philosophy, the mothballing and/or shutting down of 3.5-million b/d of excess capacity so that the remainder could be operated at a more profitable efficiency rate of 82% to 88%.

A number of high-tech refineries are now well into the 90% operating rate and, within a couple of years, that could become the industry norm.

The steady increases in marketing spending are a direct result of the intensified street competition for gasoline volumes and the pressures exerted by the underground storage tank problems and leak protection programs as well as other high-cost environmental regulations and equipment requirements.

Marketing spending also includes the new look in gasoline stations—the high volume, self service places with their computer linkups and point-of-sale electronic technology.

The table below gives petroleum marketers a 10-year perspective on the industry's spending programs, segment by segment:

Capital Spending In Oil—$425-Billion In 10 Years

(millions of dollars)

	——Downstream——								
Year	Mktg.	Refg.	Total	Trans.	PChem.	E & P	Misc.	Total Indus	% Down Stream
1990	$5,146	$2,517	$7,663	$2,868	$1,753	$32,474	$5,638	$50,396	15.2%
1989	5,137	2,326	7,463	2,878	1,893	26,813	5,622	44,669	16.7
1988	4,896	2,193	7,089	2,447	1,509	25,780	5,025	41,850	16.9
1987	4,352	1,907	6,259	1,805	1,012	21,199	4,269	34,544	18.1
1986	3,526	2,478	6,004	3,815	861	19,775	4,074	34,529	17.4
1985	3,667	3,376	7,043	3,795	940	33,045	4,442	49,265	14.3
1984	2,575	3,768	6,343	1,070	542	28,235	3,036	39,226	16.2
1983	2,103	3,244	5,347	2,411	637	25,917	3,275	37,587	14.2
1982	1,940	4,825	6,765	2,315	1,206	31,035	4,273	45,594	14.8
1981	2,121	6,288	8,409	2,842	1,369	31,233	3,853	47,706	17.6
Totals:	35,463	31,922	68,385	26,246	11,722	275,506	43,507	425,366	16.1

Note: Transportation includes crude oil pipelines; Petrochemicals includes natural gas processing; Miscellaneous includes oil company coal mining, and all other unclassified investments. 1990, 1989, and 1988 are estimates; all other years are considered actual expenditures. Sources: Data Research, Inc ., a subsidiary of McGraw-Hill, Inc., and the old McGraw-Hill Economics Dept. which was merged into DRI.

Unocal And Venezuela Go Ahead With Joint Venture In Midwest

Unocal Corp announces it has signed a letter of intent with Petroleos de Venezuela S.A. (PDVSA) to form a joint venture involving its 147,000 b/d refinery in Lemont, Ill., and almost all of its marketing system in 12 Midwest states for $500-million. The possibility of such a venture was announced earlier, but was conditional on a successful run of Venezuelan crude through the refinery.

The agreement also depends on successful negotiation of joint-venture and crude-oil supply agreements and a number of other agreements, Unocal says. Each party would hold a 50% interest in the standalone venture, with a long-term, 135,000 b/d crude supply contract.

Unocal says the transaction was conditioned on the venture obtaining financing of not less than $400-million with terms acceptable to both parties.

The assets to be transferred to the partnership include, in addition to the refinery, 14 terminals, more than 100 service stations, a lube oil blending and packaging plant, and contracts with a network of 190 marketers who market through 3,400 stations. The new company will continue to operate under the Unocal 76 brand.

Richard J. Stegemeier, Unocal president and CEO, says the venture would provide the company with more reliable margins and significant cash which would be applied to debt repayment or other uses.